INTERNATIONAL FINAL

ROUND EXAMINATION

Part B

FIRST NAME:_____

LAST NAME:_____

COUNTRY:_____

INSTRUCTIONS

- Read each question carefully to ensure that you understand it before selecting your answer. Pay close attention to the wording of both the question and the answer choices.

- The last pages of this booklet are your answer sheet. Use a pen to mark your answers clearly on the answer sheet. Since you are using a pen, please be careful with your selections as you will not be able to erase or change your answers. If you need to change an answer, neatly cross out the incorrect choice and checkmark your final answer.

- If you find a question unclear or need further clarification, raise your hand, and an EO team member will assist you.

- All cell phones must be turned off and stored away during the test. There are no exceptions to this rule.

- If you wish to appeal any part of the test, you can do so by completing the appropriate form located on our website: https://economicsolympiad.org/appeals

- There is no penalty for incorrect answers, so it is in your best interest to answer every question, even if you are unsure.

- Before submitting your answer sheet, ensure that you have answered all the questions and that your selections are clear and legible.

- This section is designed to be completed within the 90-minute time frame. If you encounter a difficult question, consider moving on and returning to it later if time permits.

Part B: 100 points - 90 minutes - 50 Questions

1. In reference to asymmetric information, which of the following options best describes the "lemons problem" in the used car market?

    A. Consumers prefer new cars to used cars.

    B. Buyers do not have the knowledge to distinguish between high-quality and low-quality used cars. This leads to high quality cars exiting the market.

    C. Sellers of high-quality cars are likely to sell them at a lower price than low- quality ones.

    D. Buyers can separate between high quality and low quality cars and pay accordingly.

    E. Sellers tend to disclose all issues and problems of their cars and so there is no asymmetric information.

2. In the area of New Vrolly, due to heavy rains over the past few years, the mayor is trying to fund a flood control system which would protect the entire region from potential flooding. Some residents though are refusing to support additional funding for this project because they know they will benefit from the system regardless of their individual contribution. This scenario is an example of :

    A. Moral hazard

    B. Adverse selection

    C. Free rider problem

    D. Tragedy of the commons

    E. Externality

3. Which of the following is an example of a normative statement in economics?

    A. 5% rise in energy costs will increase final prices of agricultural goods by 3%.

    B. Tax fraud has been significantly reduced in Greece in the last 5 years.

    C. The government has a moral obligation to provide universal, quality education to all its citizens.

    D. Higher interest rates lower consumer spending in a society.

    E. A 2% increase in unemployment leads to a 1% decrease in output.

4. Super Delight Pizza spent 3,000euros on research creating a detailed plan for renovating and beautifying its dining area aiming to attract more consumers. Unfortunately, there are increased signs of an economic recession creating doubts as to whether this renovation will be profitable. Pepe, Super Delight Pizza's owner is considering not moving on with the renovation. Whilst Pepe is considering what to do. Which of the following statements is true?

    A. The 3,000 euros spent on research is a sunk cost and should not be considered in the decision on whether or not to move on with the renovation.

    B. Pepe should continue with the renovation as he has already spent money on it.

    C. "The 3,000 euros are a variable cost and should be taken into account when deciding if the renovation will be profitable.   "

    D. As a recession is probably approaching Pepe should reduce costs and not move on with the renovation to avoid losses.

    E. The €3,000 should be recovered before making any further investments, so Pepe should delay the renovation.

5. Collusive oligopolies often tend to be unstable. Which of the following is a key factor which leads to this instability?

    A. Firms aim to maximize joint profits.

    B. Firms face legal penalties if they are caught colluding.

    C. Firms have an incentive to cheat on the agreement to maximize individual profits.

    D. Firms are unable to communicate effectively with each other.

    E. Firms have increased inefficiencies due to lack of competition.

6. Governments may try to regulate the price of natural monopolies through marginal cost pricing. Which of the following is a practical problem of using marginal cost pricing as a regulatory system?

    A. It reduces economies of scale.

    B. It lowers consumer surplus.

    C. It leads to an increase in deadweight loss.

    D. It leads to the firm operating at a loss.

    E. It shifts the average total cost curve upwards.

7. The Great Escape is a monopolistically competitive firm in the monopolistic escape room market in Athens, Greece. It is enjoying abnormal (supernormal) economic profits in the short-run as are generally the firms in this market. What will happen to its demand curve in the long-run?

    A. It is impossible to predict what will happen from the demand based on the available information.

    B. It will remain the same.

    C. It will shift to the right and become more elastic.

    D. It will shift to the left and become more inelastic.

    E. It will shift to the left and become more elastic.

8. According to monetarist economic theory, which of the following is the primary cause of inflation in the long run?

    A. Government spending focused mostly on capital goods.

    B. Excessive increases in the money supply relative to increase in output.

    C. Sharp increases in energy prices.

    D. Unemployment rates exceeding the natural rate of unemployment.

    E. Doubling of exports.

9. Which of the following is a key factor why indirect tax (i.e. 20% VAT) tends to be considered regressive?

    A. The tax represents a higher proportion of income of lower income households than higher-income households.

    B. Lower income households tend to buy more goods than higher income households.

    C. Higher-income households pay a higher percentage of their income on taxed goods than lower-income individuals.

    D. The burden of an indirect tax is paid by producers and does not affect consumers. making it neutral across income groups.

    E. Higher income groups tax evade and do not pay VAT.

10. The coffee chain Smooth Living introduces a promotional campaign for its coffees. At the same time the price of tea has a sudden increase. What will happen to the demand for Smooth Living's coffees?

    A. The quantity demanded for Smooth Living's coffee will rise but the demand curve will remain the same.

    B. The demand curve will remain unchanged but the elasticity of demand for Smooth Living's coffees will become more elastic.

    C. The demand curve for Smooth Living's coffees will shift to the left as consumers will spend more on tea.

    D. The promotional campaign will lead to a rightward shift in the demand for Smooth Living's coffees but the rise in the price of tea will lead to a leftward shift in the demand for coffee so it is unclear what the end result will be.

    E. The demand for coffee will shift to the right.

11. Which of the following would NOT be counted in GDP of the USA?

    A. A German tourist dining in a New York restaurant.

    B. A U.S. company building a factory in Mexico.

    C. A German company building a factory in Miami.

    D. The US government buying new military equipment.

    E. A student paying tuition.

12. If a product faces an elastic demand curve, how would its total revenue be expected to change when the price of the product decreases?

    A. Total revenue increases.

    B. Total revenue decreases.

    C. Total revenue remains unchanged.

    D. Total revenue becomes zero.

    E. Total revenue doubles.

13. A city experiences a sustained increase in rental prices due to rising population and demand. However, the supply of new housing remains relatively unchanged in the short term. What is the most likely reason for the low price elasticity of supply (PES) in this context?

    A. Landlords do not want to supply more houses at higher prices.

    B. The central bank has raised interest rates.

    C. Housing supply is inelastic due to high construction times and regulatory delays.

    D. The city has achieved market equilibrium.

    E. Housing is a non-tradable good and thus not subject to PES.

14. For price discrimination to be effective, a firm must:

    A. Operate in a perfectly competitive market.

    B. Have identical costs for all customers.

    C. Prevent arbitrage (resale between customers).

    D. Face a perfectly elastic demand curve.

    E. Sell a standardized commodity.

15. A clothes factory in Chicago closes because competition from abroad leads to a reduction in the ability of the factory to remain competitive and profitable. Many of the laid off workers struggle to find new jobs because they lack skills that can be transferred to other industries. What type of unemployment best describes this situation?

    A. Cyclical unemployment

    B. Frictional unemployment

    C. Structural unemployment

    D. Underemployment

    E. Hidden unemployment

16. Country A experiences a sharp rise in unemployment, with the unemployment rate increasing from 4% to 10% over two years. Which of the following is the most likely consequence of this rise in unemployment?

    A. Increased production and economic growth as businesses hire more workers.

    B. A decrease in real GDP due to lower production.

    C. An increase in tax revenue as unemployed workers find new jobs quickly.

    D. A higher inflation rate as demand for goods and services rises.

    E. More investment in businesses due to lower wage costs.

17. A government implements a large tax cut, expecting to boost consumption and economic growth. However, households respond by saving rather than spending the extra income. Which theory best explains this outcome?

    A. Keynesian consumption function, where lower taxes always increase consumer spending.

    B. Ricardian equivalence, where consumers expect future tax increases and save more.

    C. The Phillips curve trade-off, where lower taxes lead to higher inflation and unemployment.

    D. The paradox of thrift, where higher savings reduce overall demand and slow economic growth.

    E. The balanced-budget multiplier, where tax cuts have no effect on aggregate demand.

18. Which of the following is the strongest example of an automatic stabilizer in fiscal policy?

    A. A discretionary increase in defense spending during a recession.

    B. Progressive income taxes that collect less revenue as incomes fall.

    C. A central bank lowering interest rates to stimulate borrowing.

    D. A legislated one-time tax rebate to households.

    E. Government bailouts of failing banks during a financial crisis.

19. Which of the following would reduce the actual money multiplier in an economy, even if the central bank does not change the reserve requirement?

    A. A decline in the foreign exchange rate.

    B. A decrease in the reserve requirement by the central bank.

    C. An increase in government spending financed by borrowing.

    D. A rise in the number of bank loans issued.

    E. An increase in public preference for holding cash instead of deposits.

20. A doctor tells a patient that a surgery has a "90% survival rate" instead of a "10% mortality rate." The patient is more likely to agree to the surgery due to:

    A. Anchoring

    B. The framing effect

    C. Rational decision making

    D. The fact that the patient likes the doctor

    E. Status quo bias

21. During a financial crisis, the government may intervene to prevent the collapse of systemically important banks because:

    A. These banks' failure could disrupt the entire financial system and economy.

    B. Only large banks are eligible for government assistance, regardless of their impact.

    C. Small banks are unimportant to the economy.

    D. The government aims to ensure that all banks, regardless of size, are equally profitable.

    E. Bank failures have no significant effect on businesses or consumers.

22. Country A experiences a rapid increase in energy prices due to Russia's invasion of Ukraine disrupting global energy supply routes. This leads to rapid inflation. What type of inflation is this likely to be?

    A. Demand-pull inflation, because consumers are spending more on fuel.

    B. Cost-push inflation, because production costs have increased due to higher oil prices.

    C. Deflation not inflation will occur as prices will fall.

    D. Wage-pull inflation due to wages increasing.

    E. Stagflation, because inflation is always accompanied by economic stagnation.

23. Which of the following is NOT a correct implication of comparative advantage in the context of international trade?

    A. Countries should specialize in goods they produce at the lowest opportunity cost.

    B. Countries can benefit from trade even if one country has an absolute advantage in producing all goods.

    C. International trade can increase global output by allowing countries to specialize.

    D. Government intervention is always necessary to ensure countries specialize according to comparative advantage.

    E. Specializing based on comparative advantage leads to more efficient resource allocation globally.

24. A key condition for the successful functioning of a monetary union is economic convergence among member countries. Which of the following is the most accurate description of economic convergence in the context of a monetary union?

    A. All countries must have identical fiscal policies to join the union.

    B. The economies of the member countries must have achieved pre-set criteria such as a maximum level of debt and inflation rate.

    C. All member countries must be able to print money to finance deficits.

    D. Countries must be able to set their own interest rates to manage economic fluctuations.

    E. Member countries must implement protectionist trade policies to support domestic industries.

25. A developing country with a high dependence on imported capital goods experiences a sharp depreciation of its currency. What is the most likely outcome in the short run?

    A. The trade balance improves immediately as exports become cheaper.

    B. Import expenditures rise significantly, worsening the trade balance.

    C. Foreign direct investment (FDI) increases, offsetting the trade deficit.

    D. The elasticity of export demand immediately rises above one.

    E. Inflation falls due to lower prices on domestic goods.

26. Country B is a small country that imposes a quota on the import of foreign automobiles to protect its newly created automobile industry. What is the most likely outcome of this quota on domestic welfare?

    A. Consumer surplus will increase, as domestic production will increase.

    B. Producer surplus will decrease because domestic firms will not have to compete.

    C. Consumer surplus will decrease due to higher prices and fewer choices.

    D. Government revenue will increase significantly due to import quotas.

    E. There will be no impact on overall welfare due to the small country's position in the global market.

27. A homeowner takes out a 30-year fixed mortgage of $200,000 at a 5% interest rate. Over the next five years, the economy experiences deflation of 3% per year. How does deflation affect the homeowner's ability to repay the loan?

    A. The homeowner benefits because deflation lowers interest rates.

    B. The homeowner's real debt burden increases because the loan must be repaid with more valuable dollars.

    C. Deflation has no effect on real debt repayment since the loan terms are fixed.

    D. The homeowner benefits because wages rise faster than prices during deflation.

    E. The homeowner pays off the loan faster since deflation reduces the total amount owed.

28. In countries with high inflation, citizens sometimes adopt cryptocurrencies as an alternative to local money. What economic function of money is most relevant here?

    A. Legal tender

    B. Medium of exchange

    C. Unit of account

    D. Store of value

    E. Fiat backing

29. What is the main function of a smart contract?

    A. To store cryptocurrency in cold wallets.

    B. To provide anonymity in blockchain networks.

    C. To automatically execute agreements when conditions are met.

    D. To mine new coins efficiently.

    E. To regulate transaction fees on exchanges.

30. Why might blockchain technology be considered useful for recording property ownership?

    A. It provides tamper-resistant records.

    B. It guarantees higher land prices.

    C. It eliminates the need for property taxes.

    D. It automatically increases agricultural productivity.

    E. It prevents foreign investment.

31. After eating several slices of pizza, a diner notices that each extra slice adds less extra enjoyment than the one before. This pattern exemplifies:

    A. economies of scale

    B. the law of diminishing marginal utility

    C. price elasticity of demand

    D. the income effect

    E. consumer-surplus maximization

32. Which of the following is a normative economic statement?

    A. A 5 % rise in the minimum wage reduced teen employment by 2 %

    B. Imports accounted for 28 % of GDP last year

    C. Government debt exceeded 90 % of GDP in 2024

    D. The central bank should target zero inflation to protect savers

    E. A 1 pp cut in payroll tax increases employment by 0.3 %

33. If a good has a price-elasticity of demand (|PED|) of 4 and its price rises by 10 %, what is the resulting percentage change in total revenue?

    A. Revenue rises by 10 %

    B. Revenue rises by 30 %

    C. Revenue falls by 30 %

    D. Revenue falls by 34 %

    E. Revenue is unchanged

34. During a public-health campaign, the government sets a MINIMUM retail price on alcoholic drinks above equilibrium and imposes a MAXIMUM retail price on surgical masks below equilibrium. Which combination best describes the resulting market pressures?

    A. Surplus of alcohol and surplus of masks

    B. Shortage of alcohol and shortage of masks

    C. Surplus of alcohol and no change in masks

    D. Surplus of alcohol and shortage of masks

    E. Demand equals supply in both markets

35. A government pays farmers a €0.50 per litre subsidy for milk produced. Before the policy the market-clearing price was €1.00 and quantity 4 million L/week. Which short-run outcome is most likely?

    A. Consumer price rises to €1.50 and quantity falls

    B. Consumer price remains €1.00 and quantity unchanged

    C. Consumer price falls below €1.00, producer price (including the subsidy) exceeds €1.00, and quantity rises above 4 million L

    D. Both consumer and producer prices fall by €0.50

    E. Government revenue increases by €2 million per week

36. An unregulated coastal fishery is open to anyone with a boat. Each boat's catch reduces the remaining stock, but fishermen ignore this effect when deciding how long to fish. In the long run the fish population and fishermen's profits will most likely:

    A. stabilise at the socially optimal level

    B. grow because entry raises competition and efficiency

    C. fall initially but recover once prices rise

    D. decline to a point where total profits are driven toward zero owing to over-extraction (tragedy of the commons)

    E. fluctuate randomly with no systematic trend

37. A paper mill emits smoke that harms a neighbouring vineyard by €150 000 every year. If property rights are clearly assigned, information is perfect, and bargaining costs are negligible, the Coase theorem predicts that:

A. the government must impose a €50 000 Pigouvian tax to reach efficiency

B. the vineyard will always pay the mill €50 000 to stop polluting

C. the mill and the vineyard can negotiate an efficient reduction of smoke regardless of which party initially holds the legal right

D. efficiency is unattainable because pollution is a public-bad externality

E. total welfare is maximised only if the mill ceases production entirely

38. A biotech start-up has spent $2 million on a drug trial that has just failed. Management is deciding whether to launch a new, unrelated project costing $500 000 with an expected present value of $600 000. Which cost is sunk in the decision?

A. The $500 000 needed for the new project

B. The $2 million already spent on the failed trial

C. The $600 000 expected PV

D. Future marketing outlays for the new drug

E. Employee option grants tied to future profits

39. In a tourist town every visitor pays with cash, so residents keep large notes under mattresses instead of in banks. Compared with a country where people rely on debit cards, the local money-creation multiplier will be:

A. higher because banks need fewer reserves

B. the same because velocity adjusts

C. lower because deposits—and therefore re-lending—are smaller

D. infinite because cash circulates fast

E. negative whenever cash is hoarded

40. During a downturn, the national government of country A launches a €25 billion worth highway-construction program. Households in country A typically have a marginal propensity to consume of 0.85. What is the policy's approximate impact on national GDP?

    A. €25 billion

    B. €75 billion

    C. €167 billion

    D. €100 billion

    E. Impossible to tell without knowing the unemployment rate

41. Without changing rates, a central bank announces it will keep its benchmark rate "near zero" for at least two more years. Markets immediately push down long-term yields. This illustrates:

    A. moral hazard

    B. quantitative tightening

    C. forward guidance as a monetary policy tool

    D. sterilised intervention

    E. fiscal dominance

42. A large public-works package pushes up long-term interest rates, leading companies to reduce their investments. This side-effect is known as:

    A. the J-curve

    B. quantitative easing

    C. crowding out

    D. Ricardian equivalence

    E. the Taylor rule

43. In the long run, most economists view the Phillips curve as vertical. This implies that permanently lowering unemployment below the natural rate would:

    A. reduce inflation permanently

    B. have no effect on inflation or output

    C. require continually accelerating inflation

    D. boost output with stable prices

    E. be impossible even with expansionary policy

44. A steel mill closes because imported steel is cheaper, and its specialised workers cannot easily shift into other industries. Their joblessness is classified as:

    A. frictional unemployment

    B. structural unemployment

    C. voluntary unemployment

    D. seasonal unemployment

    E. cyclical unemployment

45. Tourism in a ski resort dries up each summer, forcing instructors to find temporary off-season work. The instructors' winter-to-summer job gap is an example of:

    A. cyclical unemployment

    B. structural unemployment

    C. disguised unemployment

    D. seasonal unemployment

    E. frictional unemployment

46. Diversification puts the law of large numbers to work for you because it:

    A. Increases the chance that a single bond will substantially improve the overall performance of your portfolio.

    B. Lowers the chance that a reduction in the market value of a single asset like a corporate stock will significantly reduce your overall portfolio return.

    C. Reduces tax liabilities on earned dividends.

    D. Eliminates all asset risk.

    E. Guarantees higher returns than investing in a single asset.

47. The miracle of compound interest is best described by which of the following?

    A. Interest is paid only on the original principal deposited in an account.

    B. Interest is paid on the prior interest earned, but not the principal.

    C. Interest is paid on the principal plus the prior interest earned.

    D. Interest is paid on any currency held in your pockets.

    E. Interest is paid only when the account holder makes additional deposits.

48. The natural rate of unemployment:

A. Increases sharply during a recession but declines significantly during a business expansion.

B. Is the unemployment rate accompanying the economy's maximum sustainable output.

C. Is generally less than the unemployment rate associated with the economy's full-employment rate of output.

D. Is present when the economy operates at approximately 94% of its potential GDP.

E. Is eliminated when the government implements expansionary fiscal policy.

49. Government action will often result in the counterproductive use of resources because:

A. There is often a conflict between winning political elections and adoption of only productive programs.

B. Many politicians are not interested in how their legislative votes will influence their chances of winning future elections.

C. Politicians are often unwilling to listen to interest groups that have specialized knowledge.

D. Voter participation is low; if more people voted the political process would be more efficient.

E. Government agencies always operate with perfect efficiency and foresight.

50. When production of a good generates external costs, the:

A. Demand curve for the good will overstate the true social benefits from consumption of the good.

B. Demand curve for the good will understate the true social benefits from consumption of the good.

C. Supply curve for the good will overstate the true social cost of producing the good.

D. Supply curve for the good will understate the true social cost of producing the good.

E. Government regulation is unnecessary because markets always account for external costs automatically.

PRACTICE SHEET

PRACTICE SHEET

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